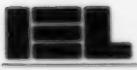
Industrial
Estates
Limited

The Nova Scotia
Crown Corporation
for the Development of
Secondary Industry



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Annual Report
for the
fiscal year ended
March 31 1987

DIRECTORS

F.T. Barber
J.L. Bragg
F. Cosman
J.J. Grant
S.M. Hickey
N.S. MacNeil
G.C. McDade
K.A. Mader
R.W.M. Manuge
J.E.A. Nickerson
W.S. Robertson
D.M. Smith
Hon. R.J. Thornhill
R.F. Weary

ADVISORY COUNCIL

Purdy Crawford
Lord David Lindsay
H. Gordon MacNeill
Malcolm McAlpine
C. Peter McColough
Sir David Nicolson
John A. Scrymgeour

OFFICERS

Acting Chairman ..... G.C. McDade
Acting President ..... N.S. MacNeil
Secretary ..... S.M. Henman
Assistant Secretary ..... F.M. LeTourneau
Controller ..... A.B. Gray

AUDITORS

TOUCHE ROSS & CO.

REPRESENTATIVE OF THE PROVINCE OF NOVA SCOTIA

HONOURABLE R.J. THORNHILL

Minister of Development

September 10, 1987

Honourable Roland J. Thornhill
Minister of Development
Province of Nova Scotia
7th Floor, World Trade Centre
1800 Argyle Street
Halifax, Nova Scotia

Dear Mr. Minister:

I am pleased to present, on behalf of the Board of Directors, the Thirtieth Annual Report of Industrial Estates Limited, including the audited financial statements for the year ended March 31, 1987.

During 1987, the Board of Directors approved financing for seven projects totalling $7,499,000.00. These projects will create or maintain 407 jobs.

Among the projects approved was financing for Swedwood Canada Limited, an established manufacturer of furniture components for IKEA, who will set up manufacturing facilities in Burnside. Also slated for Burnside is a new plant to house the operations of Royale Print and Packaging Limited. The company manufactures labels, folding cartons and other packaging materials.

Two of IEL's existing clients, Chester Plastics (1975) Limited and Britex Limited, have undergone expansions and modernizations of their facilities.

We were successful in reactivating the former Cape Breton Offshore Fabricators facility in Sydney through a lease arrangement with F. & M. Manufacturers Limited. This has resulted in 25 to 35 jobs being preserved.

During the past year, a major effort was made by IEL to restructure Crossley Karastan Carpet Mills Limited, a manufacturer of high quality carpets employing approximately 500 in Truro. Prior to the end of March, two members of IEL's senior management, Mr. W. Leslie Single, President and Chief Executive Officer and Mr. William D. Ring, Vice-President Finance, left IEL to devote their expertise to Crossley on a full-time basis.

This past year has seen a continuation of brisk land sales in a number of IEL's 14 industrial parks, including Kentville and Windsor where additional serviced land will soon be available. The Mulgrave Marine Industrial Park has also been added to IEL's inventory.

A major rehabilitation of IEL's Shelburne wharf is now underway and the common user wharf in the Woodside Ocean Industries Park has been lengthened by 290 feet to 740 feet. We have also finished the servicing of Phase 2, consisting of 33 acres in the park. During the year, we completed the 38,000 sq. ft. Small Business Technology Centre in the Woodside Ocean Industries

Park. The main purpose of this full service "incubator" facility is to provide production and office space to fledgling medium to high-technology ocean-related industries during the crucial start-up years of their operations.

IEL has concluded an agreement with Atomic Energy of Canada Limited under which IEL acts as AECL's rental agent for vacant facilities in Glace Bay and Port Hawkesbury; to date, nine new or expanding companies have located in these facilities.

Occupancy levels are remaining high in IEL's seven industrial malls where 34 small companies are producing a wide range of products.

The accompanying financial statements reflect a deficit of $19,204,744.00. The recording of this deficit results from the Province's decision to no longer provide an undertaking to fund excess losses incurred by IEL on industrial development projects. This is a departure from previous years when a letter of undertaking was given by the Province to fund losses.

The following is a comparison of the significant information on the financial statements between the years ended March 31, 1987 and 1986.

	1987	1986	INCREASE (DECREASE)
Total Investment In Industrial Development Projects	$90,482,732	$101,493,843	($11,011,111)
Twenty Year Debentures Issued to Province of Nova Scotia	77,684,107	81,227,007	(3,542,900)
Shares owned by Province of Nova Scotia	24,039,170	22,620,459	1,418,711
Income, including Industrial Parks Revenue	8,493,748	9,810,654	(1,316,906)
Interest Expense	8,032,295	8,658,324	(626,029)
Administrative Expenses	744,229	684,253	59,976
Industrial Park Expenses	1,015,770	878,110	137,660
Provisions for Losses on Doubtful Accounts, Investments and Unrecoverable Expenses on Foreclosed Investments	6,362,228	3,293,153	3,069,075
Deficit from Operations	7,660,774	3,703,186	3,957,588
Covered by cash grant from the Province of Nova Scotia	1,864,342	1,740,988	123,354
Increase in unfunded provision for losses	—	1,962,198	(1,962,198)
Increase in deficit	5,796,432	—	5,796,432
Transfer of unfunded provision for losses to deficit	13,255,999	—	13,255,999
Dividend paid on Series "A" Shares	152,313	—	152,313

During the fiscal year, the IEL Board held 7 meetings. In March, Mr. Single resigned as a Director, President and Chief Executive Officer. As a consequence of his departure, Mr. Garnet C. McDade was appointed Acting Chairman of the Board and I was appointed Acting President and Chief Financial Officer.

Mr. Single's association with IEL began in 1971 as a Director. Since 1978, he served as President and Chief Executive Officer. Mr. Ring joined IEL in 1974 as Controller and has been the Vice-President of Finance for the past nine years. On behalf of the Directors and staff, I would like to extend their sincere appreciation to both Mr. Single and Mr. Ring for their significant contribution and leadership.

It is anticipated, in the very near future, that we will commence the operation of the Nova Scotia Business Capital Corporation. The Corporation assumes the duties of the Resources Development Board, the Industrial Loans Board and the Venture Corporations Board.

On behalf of Industrial Estates Limited, I wish to express appreciation to the Directors, Officers and staff. We are also appreciative of the co-operation and assistance received from the Provincial Departments of Finance and Development, as well as the Federal Department of Regional and Industrial Expansion.

Respectfully submitted on behalf of the Board,

Norman S. MacNeil
Acting President

SUMMARY OF FINANCIAL HIGHLIGHTS

	1987	1986	1985	1984	1983	1982
Investment in industrial development projects	$90,482,732	$101,493,843	$112,190,528	$27,338,560	$140,413,303	$134,952,044
Debentures issued to Province of Nova Scotia	77,684,107	81,227,007	89,719,248	107,918,720	125,692,711	123,974,990
Transfer of unfunded provision for losses to deficit	13,255,999	-	-	-	-	-
Dividends declared Series "A" shares	152,313	-	-	-	-	-
Income, including industrial parks revenue	8,493,748	9,810,654	12,006,872	13,030,404	12,511,928	13,332,048
Interest expense	8,032,295	8,658,324	10,770,791	12,303,951	11,790,736	11,777,079
Operating expenses	1,759,999	1,562,363	1,532,479	1,356,311	1,322,331	2,185,948
Provision for losses on doubtful accounts and investments and unrecoverable expenses on foreclosed assets	6,362,228	3,293,153	1,175,583	8,821,132	2,235,325	645,921
Deficit from operations	7,660,774	3,703,186	1,471,981	9,450,990	2,836,464	1,276,900
Covered by: Cash grant from the Province of Nova Scotia	1,864,342	1,740,988	1,008,188	886,665	570,781	1,276,900
Unfunded provision for losses	-	1,962,198	463,793	8,564,325	2,265,683	-
Increase in deficit	5,796,432	-	-	-	-	-

AUDITOR'S REPORT

The Shareholders
Industrial Estates Limited

We have examined the statement of financial position of Industrial Estates Limited as at March 31, 1987, and the statement of income for the year then ended, and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, and as shown by the books of the company, these financial statements present fairly the financial position of the company as at March 31, 1987, and the results of its operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TOUCHE ROSS & CO.
Chartered Accountants

Halifax, Nova Scotia
September 10, 1987

STATEMENT OF FINANCIAL POSITION
as at March 31

ASSETS	1987	1986
Cash and short-term investments	$2,882,874	$2,455,268
Grant receivable - Province of Nova Scotia	365,258	—
Accounts receivable and accrued interest	955,090	1,167,274
Furniture, leasehold improvements and equipment (Note 2a)	108,397	118,709
	4,311,619	3,741,251
Industrial Development Projects		
Industrial parks and buildings (Notes 2B and 4)	24,332,513	22,702,840
Leased plants (Schedule 2) (Note 2b)	12,477,181	13,252,978
Advances secured by mortgages, bonds and debentures (Schedule 2)	50,477,775	57,878,312
Shares of client companies (Note 2b)	2,000,000	2,000,000
Foreclosed investments (Note 2b)	1,195,263	5,659,713
	90,482,732	101,493,843
Provision for losses on Industrial Development Projects (Schedule 2) (Note 2b)	11,268,980	13,315,490
	79,213,752	88,178,353
	$83,525,371	$91,919,604
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable and accrued charges	$763,747	$1,239,035
Accounts payable - Province of Nova Scotia	26,131	29,858
Dividend payable	152,313	—
Unexpended amounts pending completion of realization of foreclosed assets	64,647	59,244
Debentures payable - Province of Nova Scotia (Note 3)	77,684,107	81,227,007
Unfunded provision for losses on Industrial Development Projects (Note 2b)	—	(13,255,999)
	78,690,945	69,299,145
Capital stock (Note 4)	24,039,170	22,620,459
Deficit	(19,204,744)	—
	4,834,426	22,620,459
	$83,525,371	$91,919,604

Commitments and contingencies (Note 5)
Subsequent event (Note 6)

On behalf of the Board
G.C. McDade, Director
N.S. MacNeil, Director

STATEMENT OF INCOME
for the year ended March 31

	1987	1986
INCOME		
Interest, dividends and portion of rent applied to income	$7,477,978	$8,932,544
Industrial parks (Schedule 1)	1,015,770	878,110
	8,493,748	9,810,654
EXPENSES		
Administrative (Schedule 1)	744,229	684,253
Industrial parks (Schedule 1)	1,015,770	878,110
Interest on debentures and promissory notes	8,032,295	8,658,324
Provision for doubtful accounts	56,771	1,455
Provision for losses on investments (Schedule 2) (Note 2b)	5,948,745	3,020,274
Unrecoverable expenses on foreclosed investments	356,712	271,424
	16,154,522	13,513,840
Deficiency for the year	$ 7,660,774	$ 3,703,186
Grant from Province of Nova Scotia	1,864,342	1,740,988
Increase in unfunded provision for losses on Industrial Development Projects (Note 2b)	—	1,962,198
	$1,864,342	$3,703,186
Net deficiency for the year	$5,796,432	—

STATEMENT OF DEFICIT
for the year ended March 31

	1987	1986
Balance at beginning of year	$ —	$ —
Transfer of unfunded provision for losses on Industrial Development Projects as at April 1, 1986 (see Note 2b)	13,255,999	—
Deficiency for the year, including in 1987, increase in unfunded provision for losses on Industrial Development Projects—$5,948,745	5,796,432	—
	19,052,431	—
Dividend declared on Series "A" shares	152,313	—
	$19,204,744	$ —

NOTES TO THE FINANCIAL STATEMENTS
March 31, 1987

1. General Policy

The company's primary objective is the creation of employment opportunities through development of secondary manufacturing industry in the Province of Nova Scotia. The financing provided to clients is often in excess of the amounts which would be available through commercial financing sources.

2. Significant Accounting Policies

a) Furniture, Leasehold Improvements and Equipment

Furniture, leasehold improvements and equipment are valued at cost less accumulated depreciation. Depreciation is provided as follows:

Furniture, leasehold improvements and office equipment	- straight-line method, over three to ten years
Mobile equipment	- declining-balance method, at a rate of 30% per annum

b) Industrial Development Projects

i) Industrial Parks and Buildings

As part of its long-term industrial development program, the company has acquired a number of industrial parks throughout the Province. These parks consist of land in various stages of development from unimproved to fully developed and serviced lots. The parks also include some buildings which are mainly used as incubator malls.

The buildings in the parks are carried at cost less depreciation calculated on the straight-line method over 20 years. At March 31, 1987, the net book value of park buildings was approximately $4,552,000.

Park lands are carried at cost of acquisition plus cost of improvements, less proceeds of disposals. Most administrative and carrying costs of parks are reimbursed by operating fees and the remainder are expensed as they are incurred. As the parks are held in connection with long-term development objectives, fluctuations in current market values are not recognized in the accounts.

During the year, the company made capital additions to Industrial Parks of approximately $460,000 (1986 - $1,250,000) that are expected to be reimbursed by the Government subsequent to the year end. These monies, when received, will reduce the company's investment in Industrial Parks.

ii) Leased Plants

Leased plants are valued at net cost.
Depreciation has not been provided on buildings and equipment owned by the company and leased to tenants. Values have been reduced by application of a portion of rentals received to the option price at which tenants may acquire these properties. The portion of rentals so applied during the year was $584,897. At March 31, 1987, the accumulated balance of such reductions amounted to $12,351,421.

iii) Shares of Client Companies

Shares of client companies are stated at cost.

iv) Foreclosed Investments

Foreclosed investments include amounts invested, loaned or expended by the company in connection with plants where foreclosure action has been taken and the company is in the process of realizing on its security.

v) Provision for Losses on Industrial Development Projects

The company considers that its investments in Industrial Development Projects are subject to a decline in value estimated to be $11,268,980 (1986 - $13,315,490) after losses realized in the current year of $7,995,255. As at March 31, 1987, the Province of Nova Scotia has made a provision for losses against its advances to Industrial Estates Limited equal to the provision for losses and write-offs which have not been funded in the amount of $19,204,744. This amount is reflected as an accumulated deficit in these financial statements.

The financial statements of prior years reflected the fact that, in past years, the company had an undertaking from the Province of Nova Scotia to fund losses incurred on realization of its investments in excess of the funded amount.

3. Debentures Payable - Province of Nova Scotia

Under the existing legislation, the company is permitted to borrow from the Province by means of the issue of twenty-year debentures. The total borrowings, less redemptions, may not exceed $400,000,000.

The debentures bear interest at rates varying from 7.5 per cent to 15.04 per cent per annum, and are to be redeemed during the period 1987 to 2007. Present arrangements with the Province of Nova Scotia provide for redemptions of the existing debentures at the rate of $9,269,317 a year for the next five years.

4. Capital Stock

			1987	1986
Authorized:	100	common shares of $100 par value each		
	4,000,000	Class "A", 12.75% preference shares, non-cumulative and redeemable, par value $1		
	20,990,000	Class "B", 8% preference shares, non-cumulative and redeemable, par value $1		
Issued:	87	common shares	$ 8,700	$ 8,700
	3,805,000	Class "A" preference shares	3,805,000	3,805,000
	20,225,470	Class "B" preference shares	20,225,470	18,806,759
			$24,039,170	$22,620,459

During the year, the company issued 1,418,711 Class "B" preference shares to the Province of Nova Scotia as consideration for expenditures on behalf of the company in connection with industrial parks. The company also reduced the authorized total of Class "A" preference shares by $1,000,000 and increased the authorized total of Class "B" by $1,000,000.

Included in the commitments set out in Note 5 is an amount of approximately $71,000 representing additions to industrial parks. It is anticipated that these commitments will be settled by the issuance of additional preferred shares to the Province of Nova Scotia.

5. Commitments and Contingencies

a) The company is committed to investments in Industrial Development Projects of approximately $4,334,000 in addition to those recorded in the financial statements.

b) A Bill (No. 78) has been introduced in the Legislature which provides that Industrial Estates Limited may be wound up and its operations carried on by a new body, the Nova Scotia Business Capital Corporation. At the date of release of these financial statements, this bill had passed third reading but had not been proclaimed.

c) The company is contingently liable as guarantors of loans to assisted companies in the amount of $500,000. At this date, there has been no event of default on the guaranteed loans.

SCHEDULE 1

INDUSTRIAL PARKS REVENUE AND EXPENSES
for the year ended March 31

	1987	1986
Revenue		
Rental revenue	$ 614,854	$ 634,098
Operating fees	400,916	244,012
	$1,015,770	$ 878,110
Expenses		
Property operating	$ 441,838	$ 365,440
Salaries, wages and benefits	276,245	264,820
Depreciation	230,739	185,533
Travel	17,448	14,517
Administrative overhead	49,500	47,800
	$1,015,770	$ 878,110

ANALYSIS OF ADMINISTRATIVE EXPENSES
for the year ended March 31

	1987	1986
Salaries and employee benefits	$483,589	$422,210
Rent	80,064	79,996
Travel	35,048	36,203
Advertising and promotion	5,359	4,194
Telephone and telegraph	26,080	22,909
Directors' fees and expenses	21,352	28,591
General office and miscellaneous	8,954	8,290
Printing, stationery and postage	13,360	12,713
Insurance and taxes	14,794	18,629
Legal and audit	32,879	15,156
Conferences, memberships and publications	11,033	11,577
Consultants' fees	2,026	16,585
Depreciation - furniture, fixtures and improvements	9,691	7,200
	$744,229	$684,253

SCHEDULE 2

CUMULATIVE ANALYSIS OF COST OF LEASED PLANTS
for the year ended March 31

	1987	1986
Net cost of leased plants		
Balance at beginning of year	$25,019,502	$25,019,502
Disposals	190,900	—
Balance at end of year	24,828,602	25,019,502
Rentals applied in reduction of cost		
Balance at beginning of year	11,766,524	11,195,238
Rentals applied to reduce cost	584,897	571,286
Balance at end of year	12,351,421	11,766,524
Net cost after application of rental reductions	$12,477,181	$13,252,978

ANALYSIS OF ADVANCES SECURED BY MORTGAGES, BONDS AND DEBENTURES
for the year ended March 31

Balance at beginning of year	$57,878,312	$63,174,201
Investments during year	9,180,448	3,503,983
Capitalized interest	280,569	347,338
	9,461,017	3,851,321
Written-off during year	4,099,538	153,593
Transfers to foreclosed investments	291,116	482,486
Repayment during year	12,470,900	8,511,131
	16,861,554	9,147,210
Balance at end of year	$50,477,775	$57,878,312

ANALYSIS OF PROVISION FOR LOSSES ON INDUSTRIAL DEVELOPMENT PROJECTS
for the year ended March 31

Balance at beginning of year	$13,315,490	$13,460,780
Increase in provision during year	5,948,745	3,020,274
	19,264,235	16,481,054
Net amounts written-off	7,995,255	3,165,564
Balance at end of year (Note 2b)	$11,268,980	$13,315,490